

**MINUTES
of the
FIRST MEETING
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE**

**June 15, 2007
State Capitol, Santa Fe**

The first meeting of the Revenue Stabilization and Tax Policy Committee (RSTP) was called to order by Senator Timothy Z. Jennings, chair, at 9:00 a.m. at the State Capitol, Santa Fe.

Present

Sen. Timothy Z. Jennings, Chair
Rep. Edward C. Sandoval, Vice Chair
Sen. Carlos R. Cisneros
Rep. Anna M. Crook
Sen. Dianna J. Duran
Rep. Roberto "Bobby" J. Gonzales
Rep. William J. Gray
Rep. Ben Lujan, Speaker of the House
Sen. Bernadette M. Sanchez
Sen. John Arthur Smith
Sen. H. Diane Snyder
Sen. James G. Taylor

Designees

Rep. Janice E. Arnold-Jones
Sen. Sue Wilson Beffort
Rep. Henry Kiki Saavedra
Rep. Luciano "Lucky" Varela

Absent

Sen. Mark Boitano
Sen. Kent L. Cravens
Rep. Keith J. Gardner
Rep. George J. Hanosh
Rep. Daniel P. Silva
Rep. Thomas C. Taylor

Sen. Ben D. Altamirano
Rep. Donald E. Bratton
Rep. Nathan P. Cote
Sen. Phil A. Griego
Sen. John T.L. Grubescic
Rep. Manuel G. Herrera
Sen. Stuart Ingle
Sen. Gay G. Kernan
Sen. Steven P. Neville
Rep. Andy Nunez
Rep. John Pena
Sen. Leonard Lee Rawson
Rep. Debbie A. Rodella
Sen. Nancy Rodriguez
Sen. John C. Ryan
Sen. William E. Sharer
Rep. Don L. Tripp

Also Present

Sen. Cisco McSorley

Staff

Tim Crawford, Legislative Council Service (LCS)

Doris Faust, LCS

Cleo Griffith, LCS

Norton Francis, Legislative Finance Committee (LFC)

Pam Ray, LCS

Stephanie Schardin, LFC

Doug Williams, LCS

Guests

The guest list is in the meeting file.

Copies of all handouts and written testimony are in the meeting file.

Friday, June 15**Post-Session Fiscal Summary**

David Abbey, director, LFC, and Mr. Francis, chief economist, LFC, presented the post-session fiscal update.

The presentation began with a review of the following fundamental principles of sound tax policy.

- Adequacy: Does the tax system raise enough revenue to adequately fund government services?
- Efficiency: Does the tax system raise the most revenue with the least distortion?
- Equity: Are similarly situated taxpayers treated equally? Are taxes levied according to ability to pay?
- Administration: Does the tax system raise the most revenue with the least effort?
- Certainty: Can taxpayers confidently plan future tax liability?
- Accountability: Are exceptions to the rule justified and monitored?

Regarding tax legislation passed during the 2007 session, the following points were noted.

- Phased-in measures will drive growth in tax cuts. Measures include:
 - the Fire Protection Fund; and
 - the hospital gross receipts tax (GRT) credit.
- Economic development components have uncertain out-year impacts. Components include:
 - film credits, which cost \$30 million now and are expected to double by 2012. Credits are expected to cost \$23,000 per job created;

- locomotive fuel GRT; and
- the medical insurance pool.
- The pace of tax base erosion has quickened in recent years.
- The family tax provisions of 2007 restored progressivity to the personal income tax.
- Many other tax expenditures contradict the fundamental principles of tax policy by reducing revenue adequacy and increasing volatility and administrative burden.

Concerning capital outlay, the following points were noted.

- General fund and severance tax bond capacity have increased considerably in recent years as energy prices have soared. Capacity is greater in even-numbered years when general obligation bonds are issued.
- The capital outlay process suffers from lack of planning and accountability, which leads to a large number of under-funded projects, unexpended funds and disrepair of state-owned assets.
- After the 2007 session, unspent capital appropriations totaled \$2.5 billion.

With respect to the state's overall fiscal condition, the following points were made.

- State reserves remain strong at 10% due to disciplined FY07 and FY08 budgeting in the presence of energy volatility.
- Revenues are expected to grow by an average of 3.6% over the next four years.
- "New money" is expected to average \$230 million per year, down from historic amounts in FY07 and FY08.
- \$80 million of FY09 new money is already committed to Medicaid, ERB and corrections priorities.

Representative Saavedra asked about the \$2.5 billion in unexpended capital outlay funds. Mr. Abbey stated that this amount is a 10-year cumulative.

Representative Saavedra asked about the observation that "the capital outlay process suffers from a lack of planning... which leads to a large number of under-funded projects". Mr. Abbey gave examples of capital outlay appropriations that were made before projects were ready to go forward, resulting in delay and projects that now cost twice the original estimate.

Representative Sandoval asked for details, by year, of unspent capital outlay appropriations. Mr. Abbey stated that the LFC will be receiving a detailed report at the end of June.

Speaker Lujan asked about dynamic scoring in relation to the revenue impact of proposed legislation. Mr. Francis noted that the REMI project was not successful but that other attempts at dynamic scoring are in progress.

Senator Beffort indicated that dynamic scoring is essential. Mr. Francis stated that the LFC is actively pursuing a method of dynamic scoring.

Senator Snyder asked if the retirement plans are solvent. Mr. Abbey noted that the scheduled increase in Educational Retirement Fund contributions is leading to full funding over the next 30 years. However, he also stated that there are many variables that could affect the outcome.

Senator Snyder noted that some of the reason for unspent capital outlay is because money is not drawn down even though the project is complete. Mr. Abbey stated that the LFC staff is currently compiling a report of unexpended capital outlay appropriations. Ms. Linda Kehoe, LFC, stated that the staff is surveying the unexpended appropriations and will prepare a quarterly report, by sponsor.

Senator Jennings said that the state needs to examine building codes with respect to the design of roofs. He noted that flat roofs leak and that positive pitch roofs can eliminate leaking.

Adoption of Committee Work Plan and Meeting Schedule

Ms. Ray, staff attorney, LCS, reviewed the proposed work plan and meeting schedule. The committee adopted the work plan and meeting schedule.

Review of Tax Legislation from the 2007 Session

Jan Goodwin, secretary, Taxation and Revenue Department (TRD), and Jim Nunns, tax policy director, TRD, presented a summary of tax legislation from the 2007 session.

- Income tax credits and exemptions

Several new or expanded individual income tax credits and exemptions were incorporated into House Bill 436. General fund fiscal impacts are estimated at \$50 million per year. Credits and exemptions include the:

- working families tax credit;
- expanded tax exemption for middle income taxpayers;
- personal income tax exemption for active duty military pay; and
- credit for adopted special needs children.

- Economic development incentives

The following economic development incentives were all incorporated into HB 839. Combined, the annual general fund fiscal impact of the provisions is estimated to be about \$2.7 million in FY 2008, increasing to almost \$12 million by 2010. Incentives include the:

- angel investment credit;

- rural job tax credit;
 - film production credit;
 - lab partnership with small business tax credit;
 - high-wage jobs tax credit — repeal of sunset date;
 - GRT deduction — operationally responsive space program;
 - GRT deduction — aircraft manufacturers;
 - GRT deduction — military construction services;
 - GRT deduction — boxing, wrestling, martial arts;
 - GRT deduction — financial management, advisory services; and
 - GRT and compensating tax deduction locomotive engine fuel.
- Renewable energy incentives

A variety of new incentives was adopted to promote energy conservation and energy production using renewable or low-polluting energy sources. Most of the provisions were included in SB 463. General fund fiscal impacts of the provisions are estimated at \$1.6 million in FY 2008, increasing to \$16 million in 2010. Incentives include:

 - renewable energy production tax credit amendments;
 - sustainable building tax credit;
 - agricultural water conservation expenses;
 - tax incentives for producing biodiesel fuel;
 - GRT deduction for solar energy systems;
 - alternative energy products manufacturing tax credits; and
 - GRT deduction — Renewable Energy Transmission Authority Act.
- Health system tax relief

HB 638 contained a variety of provisions that will reduce tax liabilities for health care providers, hospitals and insurance companies. General fund fiscal impacts are \$20 million in FY 2008, increasing to \$36 million in 2010. Local government impacts are \$3.4 million in FY 2008, increasing to \$5 million in 2010. Relief measures include:

 - income tax credit for rural health care practitioners;
 - increased insurance premiums tax credits;
 - GRT — credit for some unpaid doctor services;
 - GRT — credit for hospitals;
 - GRT deduction — oxygen delivery;
 - GRT deduction — Indian Health Service;
 - GRT deduction — receipts from Medicare and managed health care providers; and
 - GRT deduction — hearing aids, vision aids and related services.
- Tax administration

Several bills passed that will help to administer the tax code in a more efficient and taxpayer-friendly manner. Measures include:

 - increased penalty and reduced interest rates on tax underpayments;
 - disclosure of tax information;

- tax filing extensions and filing changes;
 - repealed penalty for incorrectly reporting food and medical deduction; and
 - managed audit extension of interest-free period.
- Miscellaneous exemptions and deductions. Deductions include:
 - college nonathletic event gross receipts;
 - low-income housing materials; and
 - cattle medicine and medical supplies.

The financial benefits of the income tax legislation is summarized in the following table:

Benefits for Working Families Tax Credit by Income Class

Adjusted Gross Income Class	Number of Returns	Working Families Tax Credit	
		Total (\$millions)	Average (\$)
Under \$5,000	32,500	\$1.7	51
\$5,001 - \$10,000	45,300	\$6.1	133
\$10,001 - \$15,000	37,200	\$8.7	234
\$15,001 - \$20,000	31,200	\$6.7	216
\$20,001 - \$25,000	26,300	\$3.8	146
\$25,001 - \$30,000	20,700	\$1.6	78
\$30,001 - \$35,000	7,200	\$0.3	37
Totals	200,600	\$28.9	144

The committee adjourned at 11:50 a.m.